

VZCZCXRO7634  
PP RUEHAST RUEHCI RUEHDBU RUEHLH RUEHNEH RUEHPW  
DE RUEHBI #0294/01 1960822  
ZNR UUUUU ZZH  
P 150822Z JUL 09  
FM AMCONSUL MUMBAI  
TO RUEHC/SECSTATE WASHDC PRIORITY 7327  
INFO RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE  
RUEHNE/AMEMBASSY NEW DELHI PRIORITY 8564  
RUEHBI/AMCONSUL MUMBAI PRIORITY 2549  
RUEHCG/AMCONSUL CHENNAI PRIORITY 2076  
RUEHCI/AMCONSUL KOLKATA PRIORITY 1864  
RUEHTV/AMEMBASSY TEL AVIV PRIORITY 0025  
RUEHJM/AMCONSUL JERUSALEM PRIORITY 0012  
RUEAIIA/CIA WASHDC  
RHEHAAA/NSC WASHINGTON DC

UNCLAS SECTION 01 OF 04 MUMBAI 000294

SENSITIVE  
SIPDIS

E.O. 12958: N/A

TAGS: [ECON](#) [EIND](#) [EINV](#) [EAGR](#) [ETRD](#) [PTER](#) [PREL](#) [IS](#) [IN](#)

SUBJECT: SHALOM AND NAMASTE: ISRAEL AND INDIA'S BURGEONING BUSINESS  
PARTNERSHIP

MUMBAI 00000294 001.2 OF 004

¶1. (U) Summary. Following more than forty years of diplomatic estrangement, the last fifteen years has witnessed India and Israel embarking on a new, multidimensional strategic partnership. The two states have expanded cooperation in a number of key areas, with counterterrorism and the sale of sophisticated weapons technology becoming two cornerstones of the relationship. While many have noted the burgeoning Indo-Israeli security alliance, observers have generally overlooked rapidly expanding commercial ties. In the years since India first established full diplomatic relations with Israel in 1992, bilateral trade of goods and services between the two nations has swelled by nearly twenty percent annually, with total trade estimates approaching USD 5 billion for 2009. Cooperation and trade in the fields of IT, infrastructure, chemicals, machinery, textiles and especially agriculture have helped drive the relationship forward at a breakneck pace in recent years. Aided by a number of key trade and business agreements, India is now Israel's second largest trading partner in the developing world and its sixth largest globally for non-military goods and services. Nevertheless, given the domestic and international political sensitivities to a closer relationship with Israel, India is likely to keep these ties low key. End Summary.

An Estranged Past; A Growing Partnership

-----

¶2. (U) India and Israel share similar attributes: a British colonial past, hostile neighbors and robust democratic political systems originally founded on now-abandoned principles of moderate socialism. Yet despite this, a number of factors led India to adopt an unfavorable posture towards Israel following the two nations' emergence as independent states in 1947-1948. For the first five decades of its independence, India's foreign policy towards Israel was guided by Cold War alignments (or desire for non-alignment in India's case) and politics, India's fear of alienating its large Muslim population over Israel's treatment of Palestinians, and New Delhi's strong ties to the Arab world. These factors prompted India to reject establishing full diplomatic ties with Israel until 1992. With the collapse of the Soviet Union and the launching of the Madrid Peace Process in 1991, however, the impetus behind New Delhi's Israel-adverse policies quickly dissolved. India reoriented its foreign policy to accommodate to the changing international political landscape. It chose to embark on paths of economic liberalization at home and international pragmatism abroad (Note: India's process of economic liberalization of the early

1990s in many ways reflected Israel's own economic reforms of the 1980s. End Note.) In 1992, India extended full diplomatic recognition to Israel, after which ties between the two countries accelerated and diversified.

¶3. (SBU) Bilateral relations between India and Israel today are robust and multi-faceted, and are continuing to strengthen. According to observers of the relationship, the two states share several congruent interests and have acted to expand cooperation in a number of key areas. Increasingly, this improved cooperation has manifested itself in coordinated counter-terrorism projects and advanced weapon systems sales. Israeli missiles, rockets, radar and communication equipments, ships, assault and sniper rifles, night-vision devices, and border monitoring equipment have all been added to the Indian arsenal. Between 2002 and 2007, India reportedly purchased over USD 5 billion worth of military weapons and systems from Israel (with \$1.6 billion in 2006 alone), making Israel India's largest worldwide supplier of defense equipment.

¶4. (U) While this growing military relationship has received wide notice, both in the international and domestic Indian media, far less attention has been paid to the growing non-military business ties between the two countries. (Note: Leftist and Muslim groups in India have vociferously objected to the growing Indo-Israeli union. End Note.) From a baseline of USD 200 million in 1992, consisting of almost exclusively of diamonds and cotton, trade in goods and services grew and diversified to surpass USD 3 billion in 2007. Total trade is estimated to exceed USD 5 billion by the end of 2009. India is now Israel's largest trading partner in Asia and the developing world (behind China), and its sixth largest globally for non-military goods and services, according to the Economic Division of the Embassy of Israel.

MUMBAI 00000294 002.2 OF 004

¶5. (U) While the majority of Indo-Israeli bilateral trade continues to be in diamonds (65 percent of total trade in 2007), the diversity of trade goods has increased rapidly in recent years. New industries and sectors are replacing the established commodities of years past. Twenty two percent of Israel's 2007 exports to India came from the high-tech sector, a remarkable 35 percent increase from 2006. Telecommunications, one of the new centerpieces of Indo-Israeli trade (accounting for 14 percent of total Israeli exports to India), registered a 15 percent growth rate in 2007 from the previous year. As a leader in rural telephone networks, Israel is helping India develop its telecommunication capabilities outside urban network hubs. Both Israel and India have increased trade of sophisticated chemicals to one another, with a dramatic increase of 65 percent in total sales over the past two years.

A Match Made In Heaven?

-----

¶6. (U) The sharp increase in trade and investment has been driven in part by a complex mix of geo-political considerations.

However, most observers agree that the rapid growth is a result of ordinary economic pragmatism on the part of both governments, as trade in most goods is complementary. India, in spite of its impressive economic performance in recent years, is still predominantly an underdeveloped country in need of foreign investment and technology transfer. Many in the business community in India believe that Israel's advanced industries and technological expertise are well-suited to serve the needs of India's expanding -- yet still immature -- market. Indian business contacts report that Israel is looking to India both as a source of inexpensive labor for manufacturing Israel's products, either for the Indian market or export globally. Moreover, India's budding middle class represents to Israeli businesses - as it does for much of the industrialized world - a virtually untapped and unlimited well of potential new customers.

17. (U) In turn, Indian businesses have begun to look to Israel as a profitable export market and investment destination. Israeli imports from India have grown at an impressive annual rate of more than 24 percent since 1992, higher than the annual average growth rate for total trade. Foreign Direct Investment (FDI) - which for years almost exclusively flowed from Israel into India - is today moving in both directions. The Tata Group and the State Bank of India have taken their businesses to Tel Aviv and Haifa. Moreover, as a Free Trade Agreement (FTA) signatory with both the US and the EU, Israel has for years functioned as a conduit by which Indian businesses sell goods in what would otherwise be inaccessible or unprofitable foreign markets. Joint ventures (JV) between Israeli and Indian companies have also proliferated; it is reported that over a thousand Indo-Israeli JVs have been launched in India.

#### Bilateral Trade and Investment Advanced by Key Agreements and Delegations

-----

18. (U) A number of key bilateral trade and business agreements have helped encourage and sustain the over 20 percent rate of trade growth. Beginning in 1994, Israel and India entered into a Most Favored Nation (MFN) agreement, which stated that India and Israel were obliged to offer each other the most preferred treatment in all trade negotiations. In other words, all favorable trade policies (such as a low tariff) extended to foreign nations must also be offered to India or Israel, respectively. The MFN agreement set the stage for a series of key agreements signed in the following years, the most important of which were the Avoidance of Double Taxation agreement, the Bilateral Investment Protection agreement, and the Customs Cooperation agreement, all signed in 1996. In 2002 and 2003, the governments continued to move their bilateral relationship forward by signing an Agreement on Cooperation in Peaceful Uses of Outer Space, an Agreement on Cooperation in the Field of Health and Medicine, an Agreement on Cooperation in the Field of Protection of the Environment, and a Memorandum of Understanding (MoU) on India-Israeli Research and Development. Since 2006, discussions concerning a full-fledged Indo-Israeli Free Trade Agreement (FTA) have begun but were put on the backburner while

MUMBAI 00000294 003.2 OF 004

the two governments prepared for their respective national elections.

19. (SBU) On June 2, EconOff met with the Israeli Consul General, Orna Sagiv, to discuss the proposed FTA and to hear her take on the current state of the Indo-Israeli business relationship. Sagiv explained that the Government of Israel (GOIS) has been actively promoting increased investment and trade in Asia, and that in recent years India has increasingly become the focal point of that campaign. The GOIS has launched a number of initiatives to encourage trade growth, and has sent scores of high-profile government and business delegations to India to sell the Israel brand. "Asia is the future of Israeli business," Sagiv observed. "In India we're working hard to shift away from a diamond dominated relationship to a multifaceted one. We want to expose Israeli high-tech know-how and capabilities to the Indian market." Since 2007, Israel has sent dozens of delegations to India, representing business opportunities as diverse as water management, financial consulting, high yield agriculture, IT, telecommunications, and infrastructure. "The problem," Sagiv lamented, "is in the branding." Very few businesspeople in India have dealt with Israelis. Those who have still tend to think of Israel only in terms of defense or drip irrigation. "Few Indian business leaders are aware of all that Israel can offer in terms of high-tech or infrastructure," Sagiv continued. Israel hopes that these delegations and trade missions will help change that limited view and "show that Israel has the experience and expertise to manage projects as well as provide niche services." When asked about the likelihood of an Israel-India FTA coming

into being in the near future, Sagiv noted optimistically that the necessary ingredients are all in place. The FTA was held up by the two countries' election cycles, but "it is only a matter of time" until it is expected to become a reality.

¶10. (SBU) Note: At a June 25 lunch with the American Jewish Committee's India representative, Priya Tandon, EconOff learned that a number of these JVs and business partnerships have been launched by members of the Indian-Jewish Bene Israel religious community. The Bene Israel, who number nearly 70,000 (of which all but 5,000 have emigrated to Israel), trace their history in India back to the Second Century A.D. Jewish exile. They resemble the Maharashtra state's Marathi majority in appearance and customs, but have over the centuries maintained a resilient Jewish identity by keeping traditional Jewish laws and practices. Tandon - not a member of the Bene Israel community herself - noted that while most Bene Israel have left for Israel, strong bonds continue to connect the Bene Israel of India - particularly of Mumbai - with those who have left. These bonds have helped establish and sustain vibrant business partnerships. End Note.

Agricultural Ties Growing, Hoping to Surpass Diamonds as Dominant Trade Sector

-----

¶11. (U) Observers have highlighted the agricultural sector as one of the new driving forces behind the expansion in trade, and an area with enormous potential for expansion. At a recent seminar on Indian-Israeli agricultural partnerships in Mumbai, leading Israeli agricultural scientists explained that Israel has been a leader in low-water farming methods and technologies since the 1960s. In recent years, however, the country has diversified its expertise to include a number of other agricultural practices, including food storage, food processing, fertilizers, desalination technologies, and genetically modified seeds. Israel has been looking for foreign trading partners and has been encouraged by India's agricultural reforms of the past few years, especially the adoption of liberal policies in the food processing industries and in agricultural research and technology transfer, with 100 percent foreign direct investment permitted.

¶12. (U) To this end, Israel and India culminated more than three years of negotiations with the signing of a far-reaching Agricultural Work Plan in 2006. Sharad Pawar, the Indian Union Minister of Agriculture

led a delegation of farmers, agricultural scientists, and politicians to Israel in May of that year to hammer out the deal with his Israel counterpart, Shalom Simhon. The plan calls for a number of cooperative measures, including the establishment of

MUMBAI 00000294 004.2 OF 004

a joint fund for collaborative research on agriculture, development of energy efficient greenhouses for semi-arid tropical climates, numerous studies on recycling of domestic wastewater for irrigation, post harvest processing and storage subsidies, and enrollment of Israeli and Indian students and scholars of agriculture in each other's universities and research institutions. The panelists at the Mumbai seminar bemoaned the fact that the implementation of the Work Plan has been sluggish, but are satisfied nonetheless that the Plan has laid the foundation for a potentially mutually beneficial partnership in agriculture.

Potential for Advancement - But Tread Cautiously

-----

¶13. (SBU) Comment: Since India's full diplomatic recognition of Israel in 1992, the relationship between the two countries has quietly expanded, diversified and solidified, due to a complex mix of geopolitical considerations and economic expediency. As India continues its quest to secure more

advanced technologies in a variety of sectors, it will likely continue to look for opportunities with an economically aggressive Israel, which has its own reasons to look towards India as a trade and investment partner. In addition, in Mumbai many corporations have turned to Israeli security experts to improve their security profile in the aftermath of the November 2008 terrorist attacks, a more strategic tie-up that will likely grow. Nevertheless, given the sensitivities of India's relationships with Arab countries, where most of its oil imports originate, and the concerns of its own large, Muslim community, India's public acknowledgement of this increased coziness will remain muted. End Comment.

FOLMSBEE